

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

FILED

MAR 12 1993

FCC MAIL ROOM

In the Matter of)
Simplification of the)
Depreciation Prescription)
Process)

CC Docket No. 92-296

RECEIVED

COMMENTS OF THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

MAR 12 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

The Federal Communications Commission (FCC) released a Notice of Proposed Rulemaking on December 29, 1992, inviting comments on four proposed options that would simplify procedures and reduce costs associated with the FCC's depreciation prescription process. Comments were also sought on whether cost of removal and salvage should be removed from the depreciation process and booked as current period charges and credits.

The first proposal, the Basic Factors Range Option, would establish ranges for the three basic factors that determine the parameters used in the depreciation rate formula; the future net salvage, the projection life and the survivor curve (the last two basic factors determine the average remaining life). This would eliminate the need for carriers to submit detailed studies in support of their proposed factors.

This option is the most reasonable of the four options proposed by the FCC. Additional modification would make it more acceptable. This option, or for that matter all of the options, should not be used for the larger investment accounts or for those that have historically displayed variability in factors or parameters. Very small changes in parameters in the calculation of rates for the larger accounts have a very large impact on the overall expense to the carrier. Depreciation expense presently is the largest of all carrier expenses.

The Basic Factors Range Option will continue the dialogue and cooperation between the FCC, the state commission and the carrier. If any change is made to the depreciation prescription process it is imperative that the carriers continue to maintain accurate continuing property records.

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The Depreciation Rate Range Option, option two, would establish ranges for depreciation rates. This option discards the basic depreciation principle of matching expense to capital consumption since it ignores basic life and salvage factors and is not sensitive to the depreciation reserve position of individual carriers. This option would almost assuredly result in an accumulated depreciation imbalance by not allowing the revision to remaining life.

Option 3, Depreciation Schedule Option, would establish a depreciation schedule for each plant account based upon a FCC-specified average service life, retirement pattern and net salvage value. Adoption of this option would not recognize the individual carrier's rate of consumption, future planning and construction activity. This option represents a further deviation from the depreciation principle of matching expense to capital consumption.

The final proposal, Price Cap Carrier Option, would allow price cap carriers to file depreciation rates with no supporting data. South Dakota, and many other states, has not adopted the price cap methodology prescribed by the FCC, however, the South Dakota Public Utilities Commission, as have a number of other state commissions, has adopted the FCC prescribed interstate depreciation rates for the intrastate portion of the carrier's investment. This is based in part on the fact that the FCC undertakes a thorough study of depreciation parameters proposed by the carrier. If the FCC were to no longer require supporting data to set interstate rates, most states would continue to require such data for the setting of intrastate depreciation rates. As a result, the cost savings realized by this option would be minimal at most. Leaving the choice of depreciation rates totally up to the carriers may provide an incentive to the carrier to manipulate depreciation expense in order to produce a desired level of earnings. This proposal appears to delegate the authority for depreciation ratemaking to the carrier.

For the above stated reasons, Depreciation Rate Range Option, Depreciation Schedule Option and Price Cap Carriers Option should not be adopted by the FCC. The Basic Factors Range Option is the most reasonable with some minor modification.

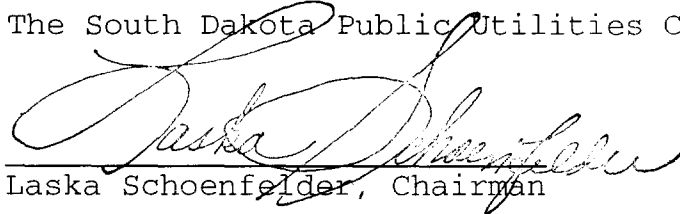
The Notice also requested comment on whether cost of removal and salvage should be removed from the depreciation process and booked as current period charges

and credits. The depreciation process should consider cost of removal and salvage in the allocation of a productive facility over its forecasted useful life, to do otherwise discards the matching principle.

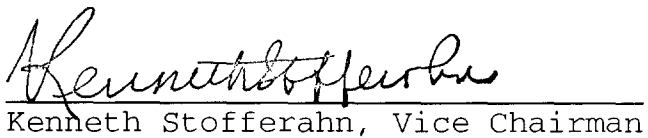
The South Dakota Public Utilities Commission appreciates the opportunity to comment on these proposals.

Respectfully submitted, this 3rd day of March 1993.

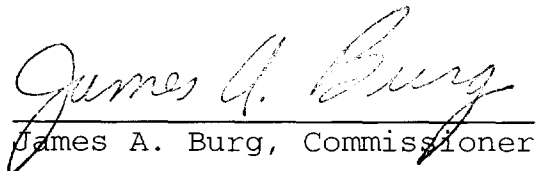
The South Dakota Public Utilities Commission



Laska Schoenfelder, Chairman



Kenneth Stofferahn, Vice Chairman



James A. Burg, Commissioner